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Reindustrialization and the Future of Social Welfare

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ABSTRACT

"Reindustrialization" is a term of economic complexity and great, if confused, social implications to most human service workers. Human services workers can only challenge the plans envisioned by most reindustrialists if certain arguments and assumptions are understood. This article will lay out the reindustrialists plans and assumptions. It will also develop some of the reasons why such ideas, as they are now formulated, cannot work -- in terms based on common experiences highly familiar to every human service worker.

Introduction

"Reindustrialization", with its discussions of economic expansion, investment rates for flagging industries, and the flight of capital, once irritated or confused social service workers with its complex jargon and stringent economic emphasis. Today, the term no longer irritates but more likely terrifies; if its economic complexity is not entirely understood, its social service implications are totally apparent. What five years ago was a gloomy distraction looming off on some distant horizon (a horizon perhaps casting brighter hues in the South and South West) is in the 1980's a stark fact of life that everyone in social services must understand, react to, and challenge for their very survival.

That challenge can only occur if one is able to dissect the plans of the reindustrialists clearly. This article will delineate the basic outlines of the dominant argument, tracing the history of the issue, the basic economic problems, and the contending plans proposed to revitalize our economy. It also will lay out some of the reasons why such plans, as they are now formulated, cannot work -- in terms that every social worker can understand and use to begin effectively challenging present assumptions about how and why our economy must be revitalized.

History: From "Urban Fiscal Crisis" to "Crisis of Capital Formation"

During the past twenty-five years a complex set of social forces have adversely affected the fiscal stability and quality of life in many American's cities. The factor most frequently identified as having contributed to the destabilization of these urban areas is the relocation of business enterprises (Sale, 1975). The first stage of this period was marked by a substantial flight of capital and jobs from certain industrialized cities to outlying suburban and rural communities. The change was described as a natural consequence of capital flowing to those geographic areas that offered the greatest opportunities for profit maximization, as these rural and suburban communities had a relatively cheap labor force and low rates of taxation.

Over the years, many cities, especially in the North and North East, have been unable to stem this tide of relocation and abandonment. Over time, decision-making of certain private - sector industries to relocate created a cycle of economic contraction and spiraling social costs that government officials were unable to break. As business left urban areas, the revenue available in these locales for services and the maintenance of its infrastructure also diminished. The loss of industrial jobs, however, placed pressure upon these urban areas to deliver increased services to an increasingly unskilled and unemployed populace.

These social costs in turn accelerated the process of urban abandonment by both business and the middle-class. Those remaining in the city demanded to be protected from what they perceived to be an upsurge in crime against individuals and property. Consequently, local and state governments in the past five years have increased their outlay for prisons, police and courts (Reiman, 1981). This relocation of resources however, further eroded the infrastructure and remaining service base. As a result mass transit breakdowns and the numbers of thoroughfares which are in states of disrepair for extended periods of time have increased dramatically during the past decade, which further damaged the business climate (Etzioni, 1980). The quality and quantity of sanitation, education and other human services has also rapidly eroded during this period.

By the mid-1970's, however, it was becoming clear that the crisis gripping many of America's urban areas was not an isolated phenomenon. During the past decade the United States for the first time experienced both skyrocketing inflation and widespread unemployment (Silk, 1981). Such problems revealed a national economic crisis characterized by declining rates of growth and productivity. By the late 1970's, it was clear that many industries, especially those regarded as the backbone of American economic strength (steel, auto, rubber) were no longer internationally competitive.

In short, by 1980 the fiscal crisis could no longer be exclusively described in terms of specific urban areas being less efficient or less profitable than suburban and/or rural areas. The "fiscal crisis" was now

a "capital crisis", complete with problems that afflict large segments of the private sector as seriously as urban areas. And, not surprisingly, many state governments and the Federal government are now described as being on the brink of fiscal collapse (Anderson, 1981).

It is most important to note that an increasingly apparent regional exception to this widespread and persistent phenomenon are parts of the South and West. Recent reports suggest that these areas of the country are prospering during this era of more general decline (Sale, 1980). Their present status as the economically stable and/or growth areas of the nation can be traced to at least two factors. Parts of this region, most noticeably Louisiana, Texas and Oklahoma, are in the enviable position of being energy exporters during a period of energy scarcity (Rifkin, 1979). Secondly, those qualities that made rural and suburban areas adjacent to industrial cities attractive to mobile capital in the 50's and 60's has also guaranteed in the short term an immediate expansion of this region's industrial base (Rifkin, 1979). The non-unionized status of labor in this area of the country affords many industries a relatively cheap work-force. Favorable taxation policies have also induced businesses to invest in the South and South west.*

Factors Contributing to the Recent Economic Decline

The broad economic crisis presently affecting every sector of America's society has been attributed to a range of highly interrelated factors that human service workers need to understand. It will be the purpose of this section to identify and briefly describe those forces that have contributed to this economic decline.

Declining Productivity

The international competitiveness of the United States has dropped precipitously during the last decade. The nation is less able to compete with foreign industries in such central areas as steel, auto, and textiles. During the past decade it has been suggested that U.S. products are inferior on the basis of quality and cost to those being produced in other countries, most notably Japan and Germany. Consequently our share of the foreign and domestic markets in steel, autos, and textiles has contracted. This contraction has been accompanied by the reduced use of our plant capacity in these industries. Such retrenchment has also affected a significant increase in the rates of unemployment within each of these sectors of the economy (Lohr, 1981).

*

It is interesting to note that certain areas of the South and Southwest are already beginning to experience the strains of rapid expansion and dislocation. The social costs of this expansion have mushroomed in Phoenix, Houston, and New Orleans (Sale, 1980). It would appear that the presently vibrant economy of the Sun Belt will not escape the twin crisis of urban decay and economic decline. Where would relocation be after that?

Capital Investment

It has been suggested that the amount and direction of capital investment by U.S. industry is not adequate to meet the challenge of foreign competition. The declining profits of American industries have made it increasingly difficult to keep pace with the technological and plant investments being made by competitors from other nations. Consequently, American products are increasingly more costly and less effective than their competitors. Recent reports also indicate that when capital has been made available American industries have failed to make appropriate investments. For example, during a period of energy scarcity the American automobile industry failed to re-tool its plants to produce more efficient cars. This decision was made despite the availability of capital and contributed to the steep decline in productivity within industry. Relatedly, the American steel industry developed technologies which substantially reduced the unit costs of producing a ton of steel. Instead of making the capital investments necessary to immediately apply this technology, steel manufacturers chose to continue operating with their less efficient plants (Lohr, 1981). The Japanese, however, discovered, refined, and applied these techniques, much to their advantage.

Inflationary Spiral

As was suggested earlier, inflation has become an almost characteristic feature of the American economy. In recent years the inflationary spiral has begun to accelerate. This is in part a consequence of the inflationary expectations that have been built into the economy (Silk, 1980). In effect, manufacturers and labor establish the future price of their goods and services in relation to the rate of inflation. Each group wishes to advance economically and consequently demands a price or wage increase beyond the rate of inflation. This dynamic is repeated throughout the economy and effectively guarantees increased rates of inflation over time.

An increase in the inflation rate also affects a corresponding rise in the prime interest rate (Silk, 1981). Consequently ailing industries troubles are further compounded by the necessity of borrowing at high rates during a period that demands relatively substantial returns on investment capital. These circumstances may discourage borrowing which in turn reduces these companies investments in new equipment and technology. Such a decision then adversely affects the competitive position of a corporation over time. Alternatively desperate companies might borrow beyond their capacity to repay and thus mortgage the future health of the firm, all of which destabilizes the economy even more.

Short-Term Planning

In recent years American industries' emphasis upon short-term profit margins has undermined its competitive standing. This imperative has reduced various corporations' capacity to develop investment policies which favor the long-

term interests of the industry. The focus upon short-term growth demands investment policies which yield immediate dividends. This approach frequently requires that industries invest or diversify their capital in other already profitable areas of the economy. Concomitantly, these decisionmakers are less inclined to update the equipment, technology and labor skill of the parent industry because of the substantial outlay and negligible payoff initially associated with such policies. It has been suggested that this almost exclusive reliance upon short-term profit margins as a barometer of corporate health effectively undermined the productivity and competitive standing of a number of America's basic industries.*

Secondly, American managers are increasingly selected to lead a corporation on the basis of their financial expertise. Conversely this decisionmaker is generally less attuned than his corporate predecessors to the particular characteristics of a product or an organization. The new decisionmakers are characterized by a set of skills which (1) are transferable between industries and (2) emphasize interorganizational investment or diversification as a means of increasing the profit margins of a parent industry.

Policies of the Public Sector

Recent criticism suggests that the public sector has contributed to the decline of American productivity. These reports have indicated that the taxation policies of the Federal government and certain states have not encouraged corporations to invest their profits in long-term capital expenditure projects such as plant renewal and technological development (Bluestone et.al., 1980 and Rohatyn 1981). Instead these formulas have focused on the short-term profits and circumstance of American industries. Consequently the Reagan Presidency and both Houses of Congress have recommended an accelerated depreciation allowance for plants and equipment. This tax incentive plan is expected to revive industry by encouraging corporate executives to rebuild their plants and invest in the development and application of advanced technology.

Furthermore, the proportion of the G.N.P. absorbed by the public sector, especially human services, is viewed as economically unproductive. It has been argued that the government employs essential capital in various types of service programs which do not contribute directly to the industrial expansion of the society. Certain critics have therefore suggested that much of this capital should be redirected to industries that require huge sums of money to finance their future stability and

* The short-term investment policies of American industry can be traced to at least two variables. The structure of American corporations almost by definition insists that corporate managers focus upon short-term objectives. In effect, the validity of an American corporation is defined to a significant extent by its quarterly dividends and report. Therefore short-term diversification policies rather than long-term capital investment plans have been emphasized by American corporate managers (Lohr. 1981).

expansion and in turn the larger societies (Rohatyn, 1981).

Finally, the regulatory policies of government have been identified by some as cumbersome and costly. Various industries have suggested that these regulations increase the costs of producing a good or service. Consequently they have charged that government regulations contribute to the (1) inflationary spiral, (2) decline in capital available for long-term investment and (3) energy industries inability to discover new sources of domestic oil or gas and thus the nations increased dependence upon foreign reserves. Many industries have therefore demanded a sweeping deregulation of government standards that they feel have affected the practices of the private sector.

Responding to the Problem: The Stockman and Rohatyn Plans

Two plans have recently emerged as a real and potential line of attack on the economic ills of the United States. Felix Rohatyn and David Stockman are most frequently identified with these two economic packages. The Stockman plan has been adopted by the Reagan administration and presently is being considered by the U.S. Congress. It is consonant with the point of view of the conservative wing of the Republican Party. Just as importantly, the more moderate segments of the Republican Party have accepted a number of this plans basic premises (Weisman, 1981 and Silk, 1980).

Alternatively the Rohatyn plan has been described by a number of liberal journals as a potentially useful platform for the Democrat Party (Rohatyn, 1981). The recent failures of traditional liberal ideology, the present ideological void of the Democrat Party and Rohatyns role in "reviving" the New York City economy with a similar plan suggest that this approach may underpin the policies of the Democratic Party in the latter half of the decade.

The Stockman prescription recommends laissez faire policies of the 19th century as an antidote to the present ills of the American economy. This approach is based on supply-side economics which presumes that the transfer of capital from the public-sector to the private will increase the productivity of that capital and thus increase the output and employment capacity of the entire society. The more rapid the transfer of capital, the more quickly the economy will grow. It is on this basis that the Stockman plan emphasized tax cuts for business.

It also was intended to cut taxes to individuals, especially to the more affluent wage earner. The rationale for favoring the interest of business and the affluent is that these segments of the society are most likely to invest their tax savings and thus contribute to a more robust economy

Furthermore, the architects of this plan insist that tax cuts be made concurrent with a balanced Federal budget (which will decrease inflation) and increases in defense expenditures (which will invigorate the economy). During a period of modest economic growth it is therefore assured that there will be substantial cuts in human services spending. The savings made from the service cuts can then be used as initial revenues for the defense increase. The deeper the cuts, of course, the easier it will be to balance the budget at the same time.

The Stockman plan also intends to deregulate specific Federal standards and laws. This policy would lift price ceilings on oil and gas as well as open environmentally protected lands to energy exploration. This deregulation is expected to provide the energy industry with the necessary capital and incentive to expand their domestic output of energy. An increase in domestic production and greater conservation of oil because of the higher price is expected to reduce this nation's dependence on foreign oil. This combination of factors is expected to reduce inflation and increase the efficiency as well as productivity of the economy.

Numerous critics have pointed out the endemic tensions in this design. We will mention a few economic ones in this section. The Stockman plan presumes that it can reduce inflation while cutting taxes. At the very least such a premise is inconsistent with recent historic data (Rothschild, 1981). Secondly, it seems highly questionable that the huge outlays for defense, coupled with the diminished tax revenues, make it possible to balance the Federal budget. Finally, a policy directed toward the deregulation of energy and increased exploration of oil or gas in environmentally protected lands presumes that the energy companies will use their greater profits to expand domestic energy supplies by further developing traditional and alternative sources of energy. The previous sections of the analysis, however, suggest that the present predisposition of American companies is to invest on the basis of short-term profits. Consequently, the greater profits of the oil industry may not contribute to more long-term investments in energy exploration, but rather an accelerated effort to diversify their portfolio of profitable holding companies (Bluestone et.al., 1980 and Lohr, 1981).

The Rohatyn Plan

A second plan has been developed by Felix Rohatyn, the former head of the Emergency Financial Control Board of the City of New York. Given the problems in Stockman's program, it may become increasingly attractive in the mid-1980's, and thus deserves careful scrutiny. He generally proposes that "to develop the parts of the United States that are failing, a Reconstruction Finance Corporation (R.F.C.), should be created in the 1980's." (Rohatyn, 1981). The R.F.C. would be based on the N.Y.C. Emergency Financial Control Board Model in as much as it would require a partnership between the

financial community, public sector and labor. Mr. Rohatyn suggests that the R.F.C. would be generally intended to:

"...restructure basic U.S. Industries, to enable them to take their place as healthy competitors in the world markets; and to develop a regional policy whose aim will be to maintain the U.S. as a country in which all geographic areas (and thereby all classes and races) share the burdens and benefits this country has to offer."
(Rohatyn, 1981).

The primary function of the R.F.C. would be to provide equity capital to our older industries. These resources would be distributed to those industries and regions most desperately in need of such financing. This would specifically result in an infusion of capital to the older urban areas and troubled industries of the Northeast and Midwest. These monies would be used to provide low interest, long term loans to municipalities and certain industries. Such capital would enable local governments to rebuild portions of their infrastructure (sewers, bridges, mass transit, roads, etc.). Just as importantly, those faltering industries which are considered to have a realistic chance of long-term survival would be the beneficiaries of such a plan.

The R.F.C. would be structured along the lines of the New York Municipal Assistance Corporation. It would be publicly accountable but according to Rohatyn, run outside of politics. This quasi-public organization then would be able to provide capital and "negotiate the concessions that have to come with it." Rohatyn identifies a number of potential sources of capital for this reconstruction plan. Large lending firms such as banks and insurance companies might be persuaded to convert some loans to preferred stock and commit additional capital to this project. Special classes of security could be created to enable unions to invest a portion of their pension funds. Finally, this Federally guaranteed investment might attract the surplus capital of a number of O.P.E.C. nations.

The favored investment position of certain industries and municipalities however, would be achieved at substantial costs. The R.F.C. would demand "stringent concessions" from those parties most directly benefiting from such loans (Rohatyn, 1981). Rohatyn refers to the New York City experience to illustrate the types of concessions. Relevant unions would be required to tradeoff wage concessions and work rules that diminish productivity for increased job security. Local governments would have to balance their budgets within a relatively brief period of time. Alternatively, loans to the private sector might require phasing out weaker parts of certain industries, the modification of labor contracts and an ongoing search for ways to increase budgets within a relatively brief period of time.

The potential implications of this apparently redistributive plan must be examined closely. It is important to note that the resources for this project will in general have to be released from the most capital rich segments of the domestic economy. Rohatyn suggests that banks and insurance companies must provide a substantial amount of the capital necessary to fuel this project. Given the magnitude of their investment, these financiers will in all likelihood demand to monitor the direction of and return on their capital outlay. This condition of investment would be translated into the substantial if not dominant presence of these institutions on the R.F.C. board.

As Rohatyn has noted, representatives of labor and the public sector would also sit on this board. It must be presumed, however, that their roles and influence to a great extent will be defined by their capacity to finance this project, one admittedly weaker during this period of economic decline (Rifkin, 1979).

Furthermore, only certain segments of the private sector will be able to contribute to the R.F.C. Many industries have also experienced steady decline during the past ten years. The portion of the economy most able to direct substantial sums of capital to the R.F.C. are those industries that have maintained or increased their profit margins during the past decade (Rohatyn, 1981 and Tabb, 1981). In order for a growth industry to participate, it must have very substantial profits and significant sums of excess or equity capital. In effect then, those segments of the society which play an increasingly dominant role in shaping economic decision making will be asked to finance reconstruction. Given this plan's dependence upon significant sums of private sector capital, there would seem to be little alternative to that dominance. This dominance would ultimately mean that the most powerful monopolistic sectors of the economy would be formally defining the public policy of the late 1980's.

Other consequences of this plan more specifically affect the long-term interests of unions and the service sector of the economy. It would appear that certain independent functions of unions would be seriously compromised by the demands of this fresh infusion of capital into suffering industries and regions. Additionally, the requirement that Metropolitan areas maintain a balanced budget effectively underwrites a gradual contraction of various services. The experience in New York City suggests that there will be substantial shrinkage in the sanitation, education, health, regulatory and housing sectors of the service economy. Additionally, certain elements of the city's infrastructure have also been allowed to deteriorate (roads, subways, etc.). In effect, the City had to tradeoff certain services and the maintenance of its physical plant to achieve a balanced budget in the short-run. These same tradeoffs will be demanded of Metropolitan areas and regions that must do business with the R.F.C.

Comparison of the Two Plans

The Rohatyn and Stockman plans do have distinctive features. The former plan relies on a formal partnership between business, labor and government. The idealized intentions of this plan are a fundamentally liberal formulation which sees public or quasi-public mechanisms as a means of reviving private capital. It intends to minimize the short-term discomforts of the flight of capital from Northeastern and Midwestern urban areas. Unlike Stockman, the Rohatyn plan dictates the gradual, but pronounced contraction of basic services. This policy effectively combines many of the characteristics of neo-liberal ideology which is being articulated and developed by the Democratic Party's emergent leadership. The R.F.C. is therefore likely to be a centerpiece of the Democratic Party's economic policies in the 1980's.

The Stockman plan represents a more conservative definition of and response to the present economic decline. It differs from the Rohatyn plan inasmuch as it is dependent upon a rapid contraction of services. Relatedly the plan's laissez faire underpinnings implicitly encourage the continued, rapid transfer of capital from the North to the South. Stockman's policy is therefore likely to trigger a substantial reaction from those regions and elements of the population that are adversely affected by this rapid transfer of wealth.

Ultimately, however, these conservative and neo-liberal conceptions of the present problems and their solutions are fundamentally parallel. Each will contribute to further consolidations of power within the private sector. Concomitantly, each of these approaches will oversee a transfer of various kinds of decision making and power from the government to the private sector. Finally, the Rohatyn and Stockman plans guarantee that the service base of municipalities within the Northeast and Midwest will contract substantially during the 1980's.

The Service Economy

Nevertheless, the Rohatyn and Stockman plans most fatal flaw is their common misreading of the present and future structure of the American economy. Their approaches insist that American capital be invested in traditional goods producing industries. These industries are considered the primary foundation upon which the future economic structure of the society must be built. Perhaps most importantly, the resources for this reconstruction of basic industries will (in great part) be drawn from the service sectors of the economy, sectors expected to contract drastically in the coming years. The rationale for this redistribution of resources is that traditional manufacturing sectors of the economy have a greater productive capacity than service industries and are therefore able to contribute more to the present and future health of the economy.

These analyses, however, have paid insignificant attention to the vital link between service industries and the present as well as future development of the economy. As Emma Rothchild has indicated, of the five major industrial nations, the U.S. has the lowest proportion of its civilian population employed in industries defined as manufacturing, mining and construction (Rothschild, 1981). In this sector of the economy, the U.S. employs 30% of its civilian population compared to 44% in West Germany or 38% in Britain (Rothschild, 1981). Just as importantly, the positions are the same if we isolate manufacturing: the U.S. has less than 23% of its total civilian employment in manufacturing, compared to 35% for Germany, 27% for France and 25% for Sweden. The Rohatyn and Stockman plans' presumption that this sector of the economy is capable of functioning as the primary source of employment would seem to be misguided in both relative and absolute terms.

The conservative and liberal formulations of reconstruction are also not consonant with the present trends of the economy. As Rothschild indicates food, health and business services produced more than three million new jobs between 1973 and 1979. This sector of the economy generated more than 40% of the new private jobs created between 1973 and the summer of 1980. These three service industries' employment increased three times as fast as total private employment and sixteen times as fast as employment in the goods producing or industrial sectors of the economy.

Eli Ginzberg has suggested that the contribution of government services to the economy is far greater than generally imagined. He suggests that when "the contribution of the private non-profit sector is added to that of government, the not-for-profit sector accounts for more than a third of the total employment and nearly a third of the G.N.P. (Ginzberg, 1981). He also rejects the notion that such employment and expenditure are at a cost to the "productive" side of the economy. Ginzberg's analysis is persuasive:

"The argument...is belied by the historical record of the very period that has seen the rapid expansion of the not-for-profit sector. For the past several decades, the agricultural and the automotive industries were the movers and shakers of the economy both at home and abroad. The role of Federal government expenditures in research and development and in the operation of the agricultural extension service, which was in effect a technology transfer enterprise, was crucial to the enormous gains of output per man hour and per acre of the country's farms. Similarly, it was Federal, State and local outlays for highway building, greatly enhanced by the Eisenhower administration's interstate highway legislation of 1956 that contributed to the prolonged prosperity of the automobile industry..." (Ginzberg, 1981).

Ginzberg's most compelling argument concerning the value of services to the present structure and future development of the economy relies upon the concept of human capital. He indicates that between 1950 and 1979, total expenditures for education increased from 8.3 to 151.5 billion dollars (Ginzberg, 1981). Approximately 125 billion of this total investment was made by the public sector. Investments in higher education increased 30 times from 1.7 to 48.9 billion dollars. The public treasury covered two-thirds of this expenditure. Finally, during this same period, investments in research and development jumped from 13.5 to 57.6 billion dollars. The government covered approximately two-thirds of this bill in 1960 and approximately 50% in 1979 (Ginzberg, 1981).

Ginzberg also notes that increased human capital formation was facilitated by the substantial investment in the country's health care system between 1950 and 1980. This expansion was stimulated by expenditures from both government and non-profit institutions such as Blue Cross. He suggests that "in 1950, expenditures for medical care were 42 billion with consumers paying \$4 of every \$5. In 1980 these expenditures had climbed to 240 billion with the government providing \$2 out of every \$5 and private and non-profit insurance most of the rest." (Ginzberg, 1981). The present structure and future health of the American economy demands an increasing outlay of resources for human capital formation or services. It was within this context that Ginzberg suggested:

"The U.S. cannot maintain its position among the industrial nations of the world unless it pursues policies that encourage the greater use of resources in which the country has gained a comparative advantage as a result of its generous investment in human capital...What is needed is not reindustrialization but revitalization.

Since people represent the principal input of an advanced economy, and since their contributions will vary according to their endowment, the developmental opportunities and their motivation, the nation should pursue policies aimed at strengthening its human resources (Ginzberg, 1981).

Quite clearly the present and future economic structure of the U.S. requires that at least equal if not greater attention be paid toward expanding and developing the service domain as has historically been accorded the goods producing sector. Any redevelopment plan which does not consider the increasingly important function of the service domain and changing structure of the economy is doomed to failure. Rohatyn and Stockman have chosen to develop remedial prescriptions which presume that the present and future economic structure of the U.S. does and can resemble a 19th

century goods producing model. Stockman has little understanding of the shifts in structure. This, in part, explains his interest in grafting a 19th century Laissez Faire model of goods production on an essentially service economy. Alternatively, Rohatyn has at least a preliminary recognition of these fundamental changes. This understanding however, is at best superficial given his belief that the trend must be reversed if the society is to regain its competitive and productive advantage. Such a reversal would require an increased outlay of resources for traditional goods production industries and a declining investment in services.

There is one other fundamental flaw in the reinustrialists' plans, a flaw that relates directly to the history of human services. There are historical reasons for the expansion of the service economy. These issues have been as much ignored by Stockman and Rohatyn as they are experienced and understood by every human service worker.

Economic Development and the Rise of Human Services

As the first sections of this paper make clear, the economic plans of Stockman and Rohatyn contain a social vision, one that is as fundamental to their economic scenarios as is a balanced Federal budget. That vision incorporates an image of communities as organically self-sufficient and, if not homogeneous, capable of interlacing their personal, familial, and voluntarist supports together in ways that make "belt tightening" possible. The underside to such a vision, however, is that such community and familial cohesion must exist if wide-scale social disruption, with all its attendant costs on a fiscally tight balanced budget, is to be avoided during the painful process of altering economic and social priorities.

Even a cursory look at the personal, social, and community supports within our society today suggests that this vision may be as erroneous as were those of the anti-industrial Utopians of the 19th century. Their concerns, of course were social and not economic. Sickened not by the declining rate of profit but the coarseness of industrial society, they were to call for a return to a simpler, more pastoral world of the past. They saw industrial blight, and sought out rural cottage industries; they smelled the filth of crowded tenements and turned to the expansive countryside for relief; they grew sick at the sight of emaciated children, and looked to the craft and agricultural production of small farms as their haven. Unfortunately, when they attempted to graft their rural vision on to a modern industrial world, they found that the economic laws of the market had transformed the countryside, making their dreams impossible. For example, in place of small farms, complete with close-knit families and dairy cattle, they found huge blocs of land filled with thousands of wool-growing sheep owned by textile industrialists (Marx, 1977). Likewise, the small commodity-producing candle stick maker, baker, and tinsmith -- all integral to 18th century life -- were gone, driven to urban areas. Their own small, close-knit markets had

been lost with the rural exodus to the large scale, urban manufacturing districts.

The transformed social reality developing alongside the economic drive of 19th century industrial expansion crushed these dreams quickly. The organic, close-knit, and self-sufficient units necessary for communal support no longer existed. If we assume that the economic drives of capital have continued throughout the 20th century, it clearly seems to follow that more social transformation has occurred. This change has in turn generated further social dislocation and alteration of community life -- a life that Stockman and Rohaytn must account for within any viable economic scenario for the future.

Indeed, we can only understand the rise of the late 20th century service sector as the inevitable institutional response to the further alteration of social life under American capitalism. For just as large-scale factories of the 19th century have been replaced by larger-scale, 20th century conglomerates, the social fabric has been altered in even more atomizing, individualized forms than were seen in the past. If one doubts this, try to identify what period the following picture describes:

Though only a few miles from the center of the greatest metropolis of the land, Queens County and much of Brooklyn were still semirural..., and many families were as dependent on small-scale agriculture as on the industrial commercial employment of the men in the family. North of what is now the midtown area, Manhattan itself was more bucolic than urban, and pigs and goats were often seen along the East River as far south as 42nd Street. At a time when men worked 10 or 12 hours a day, six days a week, much of the care of urban livestock and gardens inevitably fell to women -- quite apart from the fact that such tasks were theirs by tradition...less than $\frac{1}{2}$ purchased bread, and almost all bought huge amounts of flour...with families averaging 2 pounds of bread and flour consumption a day. (Smuts, 1971).

The Age of Jackson in the 1820's? Around the Civil War? These statistics emerged at the turn of the 20th century (Braverman, 1974). The bucolic image of Brooklyn homemakers baking all their bread and canning their food, let alone of pigs wandering on 42nd Street, seems far removed from the urban reality of today. We buy our bread and canned vegetables, which has increased commercial services substantially. Additionally, 42nd Street's services range from the worst street hustle to shelters for the 8,000 runaway and abused children who can be found in the Times Square area on any given day (New York Times, 1980).

The social fabric is indeed different, and the inexorable drive that re-industrialization would intensify has made it so. As Braverman wrote:

But the industrialization of food and other elementary home provisions is only the first stage in a process which would eventually lead to the dependence of all of social life and indeed the relatedness of all of human-kind, upon the marketplace. The population of cities, more or less completely cut off from a natural environment by the deviation between town and country, becomes totally dependent upon social artifice for its every need...Thus, the population no longer relies on the community, elders, children, but with few exceptions must go to the market and only the market, not only for food, clothing, and shelter, but also for recreation, amusement, security, for the care of the young, the old, the sick, the handicapped...(Braverman, 1974).

It is thus neither accident nor the whim of 19th century "do-gooders" that produced the modern set of commercial and human service organizations that interweave within every neighborhood's basic functioning. Be it movie house or nursing home, supermarket or childcare center, these new organizations exist because the social changes of modern life demanded they be created. While the ongoing confrontations between classes played no small part in the development of such services, they wouldn't exist if there had been no expressed societal need for them (Braverman, 1974). Put simply, the march from small-scale to large scale capital organizations to world-wide conglomerate is matched by the quieter but no less profound steps from tight-knit families in multi-generational communities to the single-parent or unmarried, relatively transient individuals of today. The more powerful, centralized modern economic organization, with widespread needs and far-flung interests needs the readily available, more atomized individual able to move quickly or adapt readily to changes in the ever-shifting marketplace. While materially better off than their 19th century counterparts, there is little question that they are also more alienated and alone. Lacking the kinship and communal supports of the past, the late 20th century employee therefore must look to institutional services in time of need -- mental health clinics for emotional stress, hospitals for illness, nursing homes for aged parents, childcare for their young...just the facilities that must be curtailed under reindustrialization.

The "reindustrialist" are in many ways the Utopians of today, for their vision calls forth a social image of community and family life that by definition does not exist. They have one very real advantage over the Utopians, however -- the institutional and political power to try and make their vision come to life. It is therefore that much more important analyze why their plans cannot work. As has been suggested, communities are no longer

socially equipped to cohere around any widescale set of social problems without broad institutional support. Consequently, the economic plans of reindustrialization will necessarily create a level of social costs far greater than ever before -- too great to either balance budgets or curtail large sections of the social service sector, let alone "cure" inflation.

There are innumerable ways in which we can show how the huge social costs of reindustrialization will undermine economic projections. For example, a trimmer revenue base can hardly pay for the needed expenditures necessary to rebuild the deteriorated infrastructure of our cities. For instance, \$33 billion is required for 20% of all bridges that need major repairs or rebuilding. Additionally, 12,000 miles a year of interstate highways need upgrading. It has also been suggested that \$110 billion is needed to maintain urban water systems, and that \$5.3 billion to refurbish the New York City Transit system alone (other railway systems for freight on a nationwide level are staggeringly high) (Choate, 1981).

Such infrastructural problems, as anyone who has ridden American mass transit knows too well, has a direct bearing on economic and community revitalization. Likewise, others have documented that the huge defense outlays will create an even greater inflationary spiral in the future (Thurow, 1981). But we intend to look at the broader implications of service cuts within the social welfare state itself. What we are arguing is different: namely, that the very process of cutting the social welfare state, given the transformation of social and community life over the 20th century, inevitably creates so many social costs that its fiscal purpose of trimmer public efficiency is an impossibility.

This can be seen through the following examples which were drawn from the social service literature. While brief and not intended to be all inclusive, this literature presents a picture of an intensifying cycle of further social and personal distress that the state will have to address. The medical research by Brenner and Cobb (Brenner, 1977) on the effect of unemployment and plant relocations (a more devastating problem than unemployment alone, due to its permanence) upon individual stress is most telling. For every 1% increase in national unemployment, Brenner found that there are 38,886 more deaths, 20,240 more cardio-vascular failures, 494 more deaths from cirrhosis of the liver from alcoholism and more suicides will occur above annual averages (Brenner, 1976). Furthermore, those of us in social services know that imbedded within each stress-laden statistic exists multiple social realities. Frustrated husbands beat wives, who must seek counseling or police protection; children upset by family discord truant and their grades plummet, necessitating further family interventions from the outside. Eventually, as Brenner documents, such stress culminates in more severe health and emotional problems, necessitating expensive institutionalization and bed care. All of this occurs well before his carefully correlated morbidity increases. Indeed, the financial costs for increased institutionalization that are related to unemployment increases are staggering.

Table I (Brenner, 1977)

	<u>Increase in Institutional Use</u>	<u>Cost</u>
Suicide	4.1%	\$ 63 million
Mental Hospitalizations	3.4	82 million
Stress-related physical diseases	1.9	1,372 billion
Homicide	5.7	434 million

These costs are all based on financial data from the early 1970's which, given inflation rates since then, suggests how much higher they now are. Such figures also err conservatively by not estimating the loss of wage earnings -- and tax revenues. As the tax revenues from such earnings are part of the reindustrialists' assumptions about growth and spending (just as these social costs are not) their loss from the workforce can only further undercut such plan's vitality.

Brenner's figures as any social worker knows, suggest that widespread unemployment and plant relocation is as much a process as it is statistical outcome of dollars and increases in institutionalization. Such lay-offs and retrenchment do not force people out of work one day and into the hospitals and clinics the next. Their toll is slow yet cululative.

Let's look more closely at the projected slashes in the services. As the press has frequently reported, one of President Reagan's most popular campaign slogans was "Let's Put America Back to Work Again!" The search for funds for investment capital in high growth industries has necessitated the slashing of the public and social service sectors -- health service agencies, retail stores, service firms involved in contract work, etc. But who works in these services? And where would they go, if laid off?

The reindustrialists might assume that either these workers would easily transfer to other, skilled jobs opening up in the South and Southwest, or would stay home and maintain the family while others took over financial responsibilities. This presumption is incorrect, however. The service sector, with its lower paying and less skilled requirements, is primarily female and disproportionately Black and Latin (Braverman, 1974). Such work has always had its limitations for either advancement or transfer to other sectors, which explains in part the non-competitive wages these workers receive (about 40% less than operatives in large-scale private industry).

These racial and sexual issues become important when we consider the actual family responsibilities of service workers. The relatively fluid structure of the service sector has made it attractive to many women because of the changed nature of family life in the late 20th century. As the statistics of every social service agency show, the number of divorced women and single parent families nearly tripled between 1970 and 1975 (Schorr, 1979). Just as importantly, the number of children living in one-parent families increasing by 60% in the last decade. By the age of 18, nearly one out of two children will have lived in a single parent household.

Such statistics are magnified for Black and Latin women (Schorr, 1979). The pressing family needs of many service workers as both breadwinner and nurturer decrease the likelihood of easy access to skilled and/or distant jobs (without easily available, inexpensive training). These job losses (given that their family responsibilities will not cease), will increase this population's financial dependency on the state through welfare and welfare-related services. As Great Britain's Margaret Thatcher has found to her dismay, revenue costs for services have continued to accelerate despite the drastic slashing of services (New York Times, November 11, 1980). The same phenomenon was recently documented in the Wall Street Journal, where it was reported certain states' welfare costs tripled as unemployment increased (Wall Street Journal, January 28, 1981).*

Any social worker experienced with the multiple responsibilities and concerns of single parents would understand these dynamics immediately. It has been repeatedly reported that such people have few options beyond the application for relief. The problems of single parents, have already been acute, and must be exacerbated by plans of reindustrialization. Studies reveal further that single parents' children are twice as likely to suffer from moderate to severe emotional distress, which adds to educational and mental health demands (Ross, 1975). When one remembers that unemployment in general will increase the number of single parents (for divorce rates of the unemployed and underemployed are about 1/3 higher than for those with regular employment), we can then expect drastic increases in welfare, unemployment benefits, Medicare, etc. This will occur even with a raising of requirements for such entitlements. After all, larger numbers of people are going to have their living standards lowered.

*This problem speaks to other financial drains and economic instabilities as well. First, the unemployment funds of states have been escalating in the past year where over 11 states averted bankruptcy through Federal assistance--to the tune of well over \$5 billion, money that must be paid for somewhere and given predictions on unemployment for the next few years, likely to continue. Furthermore, the loss of such service workers from the job roles means that they will be spending less and less money on the prepackaged foods and fast food chains, retail shops, laundries, etc., that they depended upon for their families' maintenance while they worked. Over time, their loss creates other cutbacks in commercial services, lowering wages and tax revenues, increasing welfare rolls, etc. All of which intensifies the cycle.

Brenner's broadly-etched statistics are even bleaker -- and financially even more contradictory -- when we look at the collectively shared problem of crime. The relationship between unemployment, community supports, and crime is multi-dimensional. At one level exists the relatively straightforward -- albeit highly irrational -- financial costs of crime and criminal justice. Ordinary crime on the streets and in the communities* (as it is imagined by most people) has increased at a higher rate in the past five years than at any other time in history. Brenner estimates the increases in prison admissions will cost an additional \$210 million a year (Brenner, 1976). But such figures belie the financially strained reality of the problem. That reality is best captured in two recent New York Times headlines that appeared on the same day: "Court Order May Cut Number of City Jail Inmates" and "1980 Called Worst Year of Crime in City History." (New York Times, February 28, 1981). At this moment, 1 out of 99 convicted felons will go to prison, and yet New York jails are bulging at 150% capacity (New York Times, February 28, 1981). The two headlines speak to the social havoc that occurs when people are chronically unemployed in cities unable to cope with increased service demand. The increased incidence of crime in turn affects the increased costs of processing cases, lawyer's fees, social services for families, the period and nature of incarceration as well as probation/parole services.

In the past such judicial costs, while hardly adequate, minimized state and city expenditures on capital improvements for prison facilities. Presently, as Choate and Walker reported, 1,300 of the nation's prisons are at or above 100% capacity. Additionally, these facilities are so old they must be rebuilt or substantially rehabilitated (Choate, 1981). Things have reached such alarming proportions that much construction is proceeding under court order. It has therefore been given a legal priority over most other capital expenditures. With fiscal priorities going to social control and the concurrent increase in chronic unemployment the vicious "crime-control-costs" cycle will be intensified. Furthermore, except for the brief financial benefits to construction firms and their employees, this investment produces nothing except the control facility itself. And as crime rates soar, the processing costs are unrelenting, further draining a city of needed revenue. The effects of unemployment and crime go beyond the almost-dizzying circle of cost pushes and pulls of an overworked, overcrowded, and economically unproductive criminal justice system. Their effects also relate to an amorphous issue most often called the "quality of life," that, like air, can't be seen, touched, or heard, but once missing is desperately needed. "There is a low, mean hiss in the land" is how Flora Lewis described it, and the image of Detroit she wrote about was frightening:

* The ideological and social reasons for the downplaying of white collar and corporate crime during times of economic distress needs to be addressed in any detailed analysis of crime, social justice, and public policy. However, the subject matter is too broad for our purposes here. See the January, 1981 issue of Crime and Delinquency, Vol. 27, #1 for a thorough review of this subject.

In Detroit, writer Betty de Ramos offers some vignettes of the mood, the smirking, deliberately nasty way people are coming to treat each other, with no immediate provocation but their own despair. The aggression ranges from insult, to bashing a stranger's car for no apparent reason, to casual murder.

The struggle going on in Detroit these days is not just to survive...The struggle is to keep from drowning your troubles in Mad Dog or shooting your best friend in a quarrel over 50 cents (Lewis, 1981).

Fear begets fear, which heightens aggression, which leads to violence. On a collective level, there are now 140 million guns owned by private citizens, most of whom never hunt game (Lewis, 1981). These numbers suggest the fear is very active and has contributed toward an increasingly inward, insulating focus on the part of more and more Americans. At a time when people would seem to need to work together either to fulfill the reindustrialists' assumptions about social cohesion or to develop an active counter-response to their plans, the level of community disorganization and hostility minimizes the opportunity for collective activity. It is no accident that Detroit's city streets are completely vacant by 6:00 every day of the week. Nor is it a sign of social health that 50% of all Americans are afraid to go out at night because of the fear of crime. The isolation thus continues, which in turn increases our individual and collective vulnerability.

This collective anomie only thinly disguises the personal and familial tensions for the perceived victim or potential criminal. The potential victim, if well-off, more actively spends income on safe housing, either by moving to new areas or paying premium rents for cramped facilities (\$1,200 a month for a studio on New York's upper East Side is not an unheard of sum). (New York Times, October 1, 1980). The loss in income from rent means less savings, fewer purchases, and, for those who can get it, more work.^{*} Such behavior decreases an individual's potential for social and political activity, while advancing the economic process of gentrification and housing segregation now common in every American city (Tabb, 1981). The outcome on both levels is a more atomized, more fractured community composed of individuals less able to maintain themselves than in the past.

As for the potential criminal, a brief look at the description of arsonists gives us an idea of how future economic dislocation can only increase social problems and social costs.^{**} The largest number of arsonists have been found to be young, white males, with a history of educational and interpersonal problems. They often do poorly in school and at work (New York Times, March 8 1981).

^{*}If not evicted through cooping ventures or forced out through these premium rents, the most common reaction for the poor, especially the elderly is to stay inside. All the time.

^{**}We are looking at the arsonist here, not at arson, where the social and economic reasons are more varied and complex.

Such personal problems make them likely candidates for firings and lay-offs which, in a troubled economy, are part of a cost-conscious firm's retrenchment policy.

The reindustrialists would suggest, of course, that such firings are necessary -- that the risk of triggering anti-social behavior must be taken, especially since it is impossible to predict who will or won't commit arson. However, as arsonists have been found to come from unstable, divorced families where the father was absent or drank heavily (all measures of increased stress) there will be nowhere in our shrunken social service sector for such individuals to turn, no preventive measures available to handle the stress of family and personal dis-organization. If one assumes that Brenner's figures are correct, then the increases in unemployment and job loss will mean that more and more previously-intact families will be disorganized by plant relocation. Consequently, the likelihood of more anti-social behavior such as arson increases. "The fire next time," besides being a political metaphor for oppressed rage, becomes the "fire next door" -- fires which must be paid for by a community-at-large less and less able to do so.

It is no wonder that almost every statement on reindustrialization at some point refers darkly to the "potential explosions" that may occur if our society is not stabilized financially. The brief analysis on the preceding pages, focused on the relationship between unemployment and stress. It described the institutional costs, of unemployment and relatedly the complex and costly social problems which will be spawned by reindustrialization. There are other areas one could examine, for example, the health costs of increased pollution and diminished safety regulations that are expected to occur due to different types of de-regulation -- but the preceding illustrations provide a sufficiently clear outline for social workers as to why the reindustrialists cannot succeed on their terms, in ending our social and economic problems.

Moral questions concerning the tacit decision to write off an entire generation of young people, especially minority youth, as our economy is redesigned, tightened, and retrenched over the 1980's have not been raised. The explosions of Miami, created by young Blacks quite different from and more despairing than their predecessors of the 1960's, is so foreboding because no one is holding out even a dim promise that their lot will improve, that tomorrow will be a brighter day (New York Times, April 13, 1980). They know it isn't true, and they've stopped listening. What such anguish and poverty portends can only be initially reckoned with in the bleakest of terms by the reindustrialists -- terms that some of us may wish to struggle against in the future.

CONCLUSION

In conclusion, while these two plans have areas of distinctiveness, they share two fundamental assumptions which undermine any likelihood of success. Both Rohatyn and Stockman presume that the future productivity of the society is tied to its 19th century industrial and social base. Consequently, their plans fail to consider the permanence and dominance of the service features of the economy. Any plan which is intended to revitalize the economy must establish (1) definitions of productivity; (2) investment policies and (3) social, economic and political structures which are consonant with these fundamental shifts. Quite clearly, Rohatyn and Stockman's plans are in conflict with the present character, momentum and needs of the American economy. They are therefore doomed at best to fail and at worst to retard the development of the society and economy.

The service sector exists because community and social needs have been transformed in the 20th century. To imagine that communities can withstand service cuts to the degree presently proposed without concurrent widescale, increasing social costs is impossible. The outcome to such problems suggests that the alternatives for the state will be either (1) revitalization of our economic and human capital in new or transformed ways; or (2) a heightened level of state power and control. This fluid political context provides human service workers with the opportunity to help define which alternative emerges as dominant.

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